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January 9, 2009

Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump

G-00000J-08-0314

Re: Promoting Energy Efficiency in Arizona; Next Steps. Docket No. E-00000J-08-0314.

Dear Colleagues:

As you know, recent proceedings and news reports have highlighted the importance of energy efficiency for both Arizona consumers and utility companies.¹ In addition, energy-efficiency lessens the impact of rate increases on Arizona consumers. In a recent case, Staff found that one energy-efficiency measure cost a mere 1.02 cents per kWh and that energy-efficiency—or “negawatts”—appeared to be an “...economical ‘source’ of electric energy”.² Given the cost effectiveness of energy efficiency programs, our long-term goal should be that every Arizona electric and natural gas consumer is directly contacted and offered an opportunity to participate in and benefit from energy-efficiency efforts.

Currently, energy-efficiency efforts in Arizona are funded by a combination of rate base expense and through the use of specific customer surcharges. Through these mechanisms, the Arizona Corporation Commission has ordered Arizona Public Service Company, Tucson Electric Power and Southwest Gas to collectively spend in excess of \$37 million dollars annually on energy efficiency.³ Although the Commission has authorized spending amounts, regulated companies have not yet been held to a corresponding energy efficiency percentage goal, which would allow for greater accountability.

The results of our current energy-efficiency efforts highlight the tremendous savings and opportunities to be found in this area, as recent reports regarding Commission mandated energy efficiency programs at APS alone reflect total demand savings in excess of 115 Megawatts and 3,253,598 Megawatt hours. Additionally, APS' energy efficiency programs are expected to eliminate 559,619 pounds of NOx and nearly 3 billion pounds of CO2 from the atmosphere over the lifetime of the measures.

Notwithstanding the success of existing utility programs, at present Arizona is only scratching the surface of its energy efficiency potential. A recent scorecard by the American Council for an Energy-Efficient Economy ranked Arizona 28th in the nation⁴ and last in the Southwest for energy-efficiency achievement, suggesting there is significant room to expand our efforts in this area. This mediocre ranking comes even as Arizona is poised to continue to be one of the fastest growing states in the nation. An analysis by the Southwest Energy Efficiency Project (SWEEP) demonstrated that peak demand for electricity in Arizona

¹ See Wasting Our Watts, Time Magazine, January 12, 2009.

² Decision 70666, page 5, lines 17-18.

³ Current programs include incentives for CFL lighting and HVAC replacement, among others programs.

⁴ The 2008 State Energy Efficiency Scorecard, American Council for an Energy-Efficient Economy, October 2008.

January 9, 2009

Page 2

is forecasted to double over the next 20 years, from 2006 to 2025, from 16,000 MW to over 32,000 MW. This means that Arizona utilities would have to add more than 16,000 MW of resources or 32 large power plants over the next two decades. A report conducted by Pinal County reaffirmed these projections: In its Comprehensive Plan issued last month, Pinal County stated that 10,000 additional Megawatts will be required to serve the County in the coming decade, or the equivalent of 18 new power plants. The report went on to call for greater conservation efforts of up to 11 percent to help alleviate the need for some of these new plants.⁵

While the cost savings from the energy-efficiency programs we have already implemented at the state's utilities are significant, I recognize that current rate design, which incorporates usage charges, has the potential to provide a disincentive for energy companies to become full participants in energy-efficiency efforts. Put simply: the more we reduce energy usage through energy efficiency programs and Demand Side Management, the less utility companies earn. With that in mind, I would propose that we establish a workshop to take place in February to begin to explore how best to expand our energy-efficiency efforts, taking the needs of consumers and utilities into consideration. I understand that decoupling is frequently presented as a panacea for this issue; however, it is my view that any such proposals must be clearly tied to energy-efficiency and not simply provide for stabilized revenue recovery.⁶

During a workshop, I would request that Parties address current funding mechanisms and levels and the extent to which additional funding and program elements may be needed. In addition, parties may want to consider decoupling as an option **in addition to other mechanisms** for recovering lost margins. I believe interested Parties should also consider whether an annual energy-efficiency standard, established in terms of a percentage of the utilities' load or total resources, would encourage more fulsome efforts by the utilities to permanently include energy efficiency in their resource portfolios, while providing consumers a yearly gauge of their success. In the past, SWEEP had proposed an energy efficiency standard of 5 percent of total resources by 2010 and 15 percent of total resources in 2020. Comparatively the Western Governors Association (WGA) has proposed to increase energy efficiency 20 percent by 2020. Finally, I would hope that any workshop addresses regular reporting mechanisms that will make it easy for Arizona consumers to judge the effectiveness of the energy efficiency programs being implemented by their utilities with ratepayer dollars.

The Commission has an existing Docket, E-00000J-08-0314, for the purpose of examining rate design and other incentives aimed at promoting energy efficiency. I propose that Parties be asked to file comments in this Docket in advance of this proposed February workshop.

I look forward to discussing this proposal with you at an upcoming Staff Meeting.

Sincerely,



Kris Mayes
Chairman

⁵ We Create Our Future: Pinal County Comprehensive Plan, October 2008.

⁶ Decoupling proposals have received significant review during the past two Southwest Gas rate cases as well as a decoupling working group that met following the Southwest Gas 2005 rate case. This record could serve as a starting point for the workshop's review of the merits of decoupling. No such record yet exists regarding the merits of decoupling at electric utilities.

January 9, 2009

Page 3

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